

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 EB-08 XMB-02 SSO-00 TRSE-00 INRE-00
CIAE-00 INR-10 NSAE-00 /033 W
-----068909 181027Z /16

O R 180907Z JUL 78
FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC IMMEDIATE 231
INFO USDOC
AMEMBASSY TOKYO
AMEMBASSY SINGAPORE
AMCONSUL HONG KONG

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DEPARTMENT PASS EXIMBANK

EX/TIMBS FOR AMBASSADOR MASTERS

E.O. 11652: NA
TAGS: BEXP, ID
SUBJECT: MAJOR PROJECT: TRANSMIGRATION PROGRAM

REF: JAKARTA 7684

1. SUMMARY: JAPANESE ARE MAKING SUBSTANTIAL, THOUGH SEEMINGLY HIGH RISK OFFER TO INDONESIANS TO SUPPLY EQUIPMENT FOR TRANSMIGRATION PROGRAM. ALTHOUGHT NOT FULLY CLEAR HOW GOI INTENDS IMPLEMENT PURCHASES, THERE ARE SOME INDICATIONS THAT INTERNAL PRESSURE TO GET ON WITH PROJECT MAY TILT GOI TO FAVOR JAPANESE SUPPLIERS. U.S. COMPANIES PUSHING HARD TO GET A PIECE OF THE ACTION AND SPECIFIC EXIM FINANCIAL SUPPORT, WILL BE NECESSARY TO BUTTRESS THEIR EFFORTS. END SUMMARY.

2. AS DEPARTMENT AWARE GOI IS EMBARKING ON MAJOR TRANS-
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MIGRATION PROGRAM. PROJECT IS SCHEDULED TO START APRIL 1, 1979, DATE OF START OF NEW FIVE-YEAR PLAN AND NEW GOI FISCAL YEAR. WE REPORTED IN REFTEL SIGNIFICANT TRADE OPPORTUNITY FOR MAJOR SALES OF A VARIETY OF EQUIPMENT FOR THIS PROJECT.

3. DURING PAST WEEK PROJECT HAS PICKED UP CONSIDERABLE

MOMENTUM DUE APPARENTLY TO PRESIDENT SUHARTO'S DESIRE TO PUSH THIS PROGRAM AHEAD MORE RAPIDLY. THIS, IN TURN, HAS INTENSIFIED FOREIGN EQUIPMENT SUPPLIER ACTIVITIES IN GETTING A HANDLE ON CONTRACTS DESPITE FACT THAT NO DETAILED ANNOUNCEMENTS OR PUBLIC TENDER HAVE TAKEN PLACE.

4. ATMOSPHERE HAS BECOME PARTICULARLY COMPLEX SINCE JAKARTA BUSINESS AND BANKING COMMUNITIES FILLED WITH RUMORS AND SPECULATION ABOUT HIGH LEVEL DECISIONS ON PROJECT IMPLEMENTATION AND MODUS OPERANDI FOR EQUIPMENT PURCHASES. MINISTER WIDJOJO TOLD AMBASSADOR LAST FRIDAY THAT GOI DID NOT PLAN TO BUY EQUIPMENT ITSELF BUT IT WOULD BE PROVIDED BY THE CONSTRUCTION CONTRACTORS THEMSELVES WHO WOULD EITHER PURCHASE OR LEASE EQUIPMENT FROM SUPPLIERS. FOREGOING APPEARS TO BE CONFIRMED BY INFO DEVELOPED BY EMBASSY ON SUBSTANTIAL JAPANESE OFFER (DETAILS BELOW) WHICH ACCORDING TO SOME (UNCONFIRMED) RUMORS GOI INTENDS TO ACCEPT SHORTLY.

5. ON THE OTHER HAND IT IS ALSO APPARENT THAT THERE IS STILL CONSIDERABLE DEBATE WITHIN GOI ON THIS SUBJECT. SENIOR BANK INDONESIA OFFICIAL, WHEN QUERIED BY E/C COUNS, WAS EMPHATIC IN STATING THAT NO DECISION HAD BEEN TAKEN BY GOI ON EQUIPMENT PURCHASES. THAT NO ABRUPT ARRANGEMENT WOULD BE MADE, AND THAT A PUBLIC TENDER LIMITED OFFICIAL USE

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WOULD HAVE TO COME FIRST. WHILE THIS OFFICIAL DID NOT CONFIRM NOR DENY JAPANESE OFFER, HE IMPLIED THERE WAS NO INTENTION TO GO THE DESIGNATED CONTRACT ROUTE.

6. EMBASSY, IN CLOSE CONTACT WITH POTENTIAL U.S. SUPPLIERS, PARTICULARLY CATEPILLAR AND INTERNATIONAL HARVESTER, AND U.S. BANKERS. WHILE RECOGNIZING THAT SPECIFIC DETAILS ON PROJECT PURCHASES ARE STILL LACKING, IF OUR COMPANIES ARE TO BE SUCCESSFUL IN MEETING VERY STIFF COMPETITION FROM JAPANESE AND NOW ALSO FROM THE FRENCH, EXIM WILL HAVE TO MOVE RAPIDLY. (HAVE JUST RECEIVED COPY OF EXIM TELEX TO GOI AND CATEPILLAR OF JULY 17, 1978, NO. 44218 TO EMBASSY.)

7. FOLLOWING IS OUR BEST UNDERSTANDING OF PRESENT STATE OF PLAY ON JAPANESE OFFER.

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DEPARTMENT FOR EXIMBANK

EX/TIMBS FOR AMBASSADOR MASTERS

8. AS WE REPORTED IN REFTTEL, GOI APPARENTLY DOES NOT WANT TO GIVE GOVERNMENT GUARANTY TO EQUIPMENT SELLERS. GOI WILL UNDERTAKE ONLY TO PAY CONTRACTORS AS THEY PERFORM AND THIS PAYMENT WOULD GO PARTIALLY TO SUPPLIERS. THE ABOVE ARRANGEMENT PRESENTS AN UNACCEPTABLY HIGH RISK TO MOST EQUIPMENT SUPPLIERS BECAUSE, WITH PERHAPS A HANDFUL OF EXCEPTIONS, INDONESIAN CIVILWORKS CONTRACTORS ARE SMALL, UNDER-CAPITALIZED AND LACK EXPERIENCE IN SUCH LARGE PROJECTS.

9. TOTAL VALUE OF EQUIPMENT IS IN THE 400 MILLION DOLLARS RANGE, OF WHICH APPROXIMATELY \$240 MILLION WOULD BE NECESSARY FOR PURCHASE OF HEAVY EQUIPMENT TO CLEAR LAND, ETC.

10. WE HAVE BEEN INFORMED

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THAT A JAPANESE CONSORTIUM OF COMMERCIAL BANKS, WITH A GUARANTY BY MITSUI AND MARUBENI, HAVE AGREED TO MAKE AVAILABLE TO THE INDONESIAN KOMATSU DEALER (P.T. UNITED TRACTOR, A MEMBER OF THE LARGE ASTRA GROUP) A CREDIT OF UP TO

APPROXIMATELY \$240 MILLION REPEAT \$240 MILLION. WE UNDERSTAND FINANCIAL TERMS OF CREDIT WOULD BE USUAL COMMERCIAL BANK RATES AND TERMS. THIS CREDIT WOULD ENABLE KOMATSU TO SELL OR LEASE ALL HEAVY EQUIPMENT REQUIRED FOR ENTIRE PROJECT.

11. AS PART OF DEAL, KOMATSU WOULD REPLACE, WITHOUT CHARGE, EACH PIECE OF HEAVY EQUIPMENT WITH NEW MACHINES AFTER 3,000 REPEAT 3,000 HOURS.

12. CHARGE SPOKE TO MINISTER OF MANPOWER AND TRANS-MIGRATION ZAIN ON JULY 18 TO REQUEST THAT U.S. COMPANIES BE GIVEN AMPLE OPPORTUNITY TO PRESENT THEIR OFFERS. ZAIN ASSURED CHARGE THAT NO DECISION HAS BEEN MADE. AT ZAIN'S SUGGESTION, CHARGE HAS ALSO WRITTEN MINISTERS OF AGRICULTURE AND PUBLIC WORKS, WHO AS MEMBERS OF TRANSMIGRATION COMMITTEE HAVE BEEN GIVEN RESPONSIBILITY FOR EQUIPMENT SPECIFICATIONS FOR THE PROGRAM. E/C COUNS HAS APPOINTMENT TO CALL ON NEW SECRETARY GENERAL OF PUBLIC WORKS TOMORROW TO FOLLOW UP ON MATTER.
GARDNER

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